

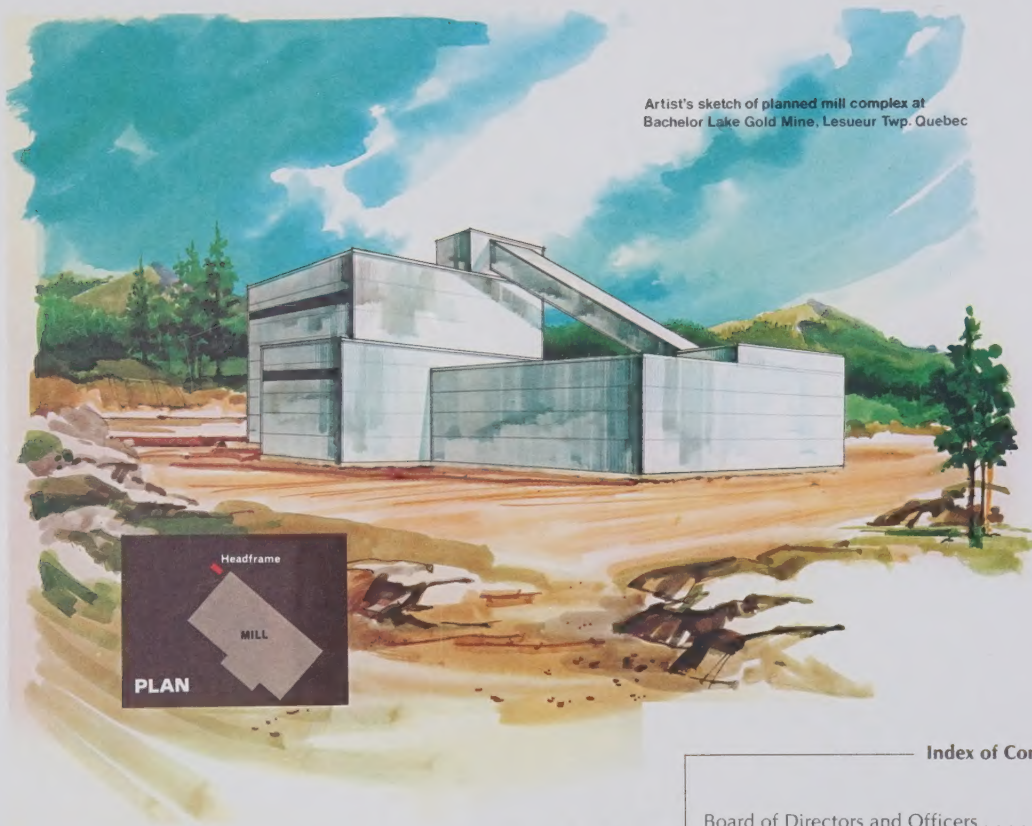


QUEBEC STURGEON RIVER
MINES LIMITED



1979
ANNUAL REPORT

Artist's sketch of planned mill complex at
Bachelor Lake Gold Mine, Lesueur Twp. Quebec



Our 1979 Cover Design

The cubes on the front cover show typical specimens of the gold bearing rock from the Bachelor Lake Gold Mine, cut, ground and enlarged about four-fold by photography. The quartz occurs as the thin white threads and stringers, the hematite (an iron-rich oxide) imparts the deep red colouration, and the pyrite, a metallic sulphide of iron crystallized out along similar minor fractures, as veinlets and crystalline blebs.

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QUEBEC STURGEON RIVER MINES LIMITED

46TH ANNUAL REPORT

YEAR ENDED 31 DECEMBER
1979

BOARD OF DIRECTORS

Harold P. Coplan, Ottawa, Ontario
*Business Executive,
President of Quebec Sturgeon River Mines Limited*

Michael L. Levinson, New York, N.Y.
Stock Broker

James H. Morlock, Toronto, Ontario
Barrister and Solicitor

Orville A. Seeber, Sydenham, Ontario
Consulting Geologist

H. D. Lee Snelling, Ottawa, Ontario
President, Prestech Associated Limited

OFFICERS

Harold P. Coplan — *President and Chief Executive Officer*

Orville A. Seeber — *Vice-President of Exploration*

G. Warren Armstrong — *Secretary*

James H. Morlock, Q.C. — *Assistant Secretary*

W. Kenneth Sandham, C.A. — *Treasurer*

TECHNICAL STAFF

O. A. Seeber, B.A., P.Eng. — *Vice-President of Exploration*

Harry Michie, B.Sc., P.Eng. — *Chief Geologist*

Percy J. McCarthy, Mining Eng. — *Manager of Mines*

Douglas Bryant, B.Sc., P.Eng. — *Geologist (Bachelor Lake)*

EXECUTIVE AND HEAD OFFICE

166 Pearl Street
Toronto, Ontario M5H 1L3

AUDITORS

Jarrett, Goold & Elliott,
Chartered Accountants,
Toronto, Ontario

BANKERS

The Bank of Nova Scotia,
King & Victoria Branch,
Toronto, Ontario

SOLICITORS

Morlock and Associates,
Toronto, Ontario

TRANSFER AGENT AND REGISTRAR

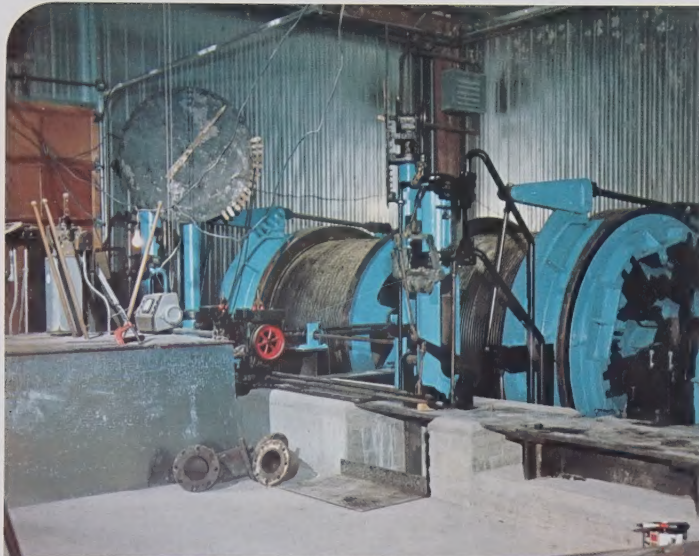
Crown Trust Company,
Toronto, Ontario

SHARE LISTING

The Toronto Stock Exchange
Ticker Symbol "QSR"

ANNUAL MEETING OF SHAREHOLDERS

30th June, 1980 at 10:00 o'clock in the forenoon,
University Room, Park Plaza Hotel,
Four Avenue Road, Toronto, Ontario



Alongside Top: The six-ft. double drum 400 HP hoist at the Stock Twp. gold property. **Below:** Partial view of the hoist-compressor-heating plant in the main service building, Stock Twp.

PROFILE OF TECHNICAL STAFF

ORVILLE A. SEEBER — Vice-President, Exploration

Mr. O. A. Seeber, the Company's Vice-President of Exploration, is a graduate (Geology and Mineralogy) of Queen's University in 1937, initially joining Falconbridge Nickel Mines Limited as a geologist and from 1945-1954 was Chief Field Geologist for this major company, subsequently retained as Chief Geologist with the M. J. Boylen Engineering Offices for some 16 years and immediately prior to joining the Coniagas-Quebec Sturgeon Group as Vice-President of Exploration in 1972 was similarly retained by Northgate Exploration Limited.

HARRY MICHIE — Chief Geologist

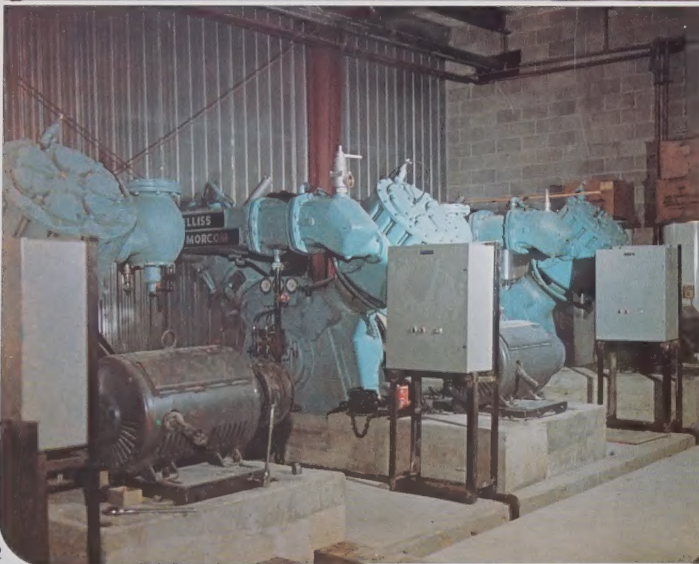
Mr. Harry Michie is Scottish-born, graduating from St. Andrew's University with a B.Sc. degree in geology. His entire professional career has been in Canadian Gold Mining, initially with Hollinger Cons. Gold Mines Limited as Mines Geologist from 1951-67 after which he was Chief Geologist with Aunor Gold Mines Limited, later in a similar capacity when the operations of Aunor, Pamour and Hallnor were unitized. This association with the Noranda Group of Companies spanned a five year period prior to joining Quebec Sturgeon River Mines Limited as Chief Geologist in 1972.

PERCY J. MCCARTHY — Manager of Mines

Mr. Percy J. McCarthy, the Company's Manager of Mines, studied mining engineering at the Haileybury School of Mines and at Queen's University prior to embarking on a career in various senior management capacities including mine manager, engineer and geologist with the Little Long Lac Organization. His entire experience has been in gold mining, essentially all of which were comparatively low grade mines emphasizing extraordinary efficiency and profitability despite the low gold price prevailing throughout most of the 27 year period of his career prior to joining Quebec Sturgeon River Mines Limited in 1974.

DOUGLAS BRYANT — Geologist (Bachelor Lake Project)

Mr. Douglas Bryant was born January 11, 1945 in Leveck, Ontario and graduated in 1970 from the Michigan Technological University, Houghton, Michigan, with a B.Sc. degree in Geology. Prior to graduation he took summer employment in 1968 with Franc. R. Joubin & Associates Limited, and the following year at New Imperial Mines Limited (since renamed Whitehorse Copper Mines Limited) in Yellowknife, N.W.T. Following graduation he spent three years in Australia, employed as geologist by Australian Development Limited at the Nob Mine, Tennant Creek, Northern Territories. Returning to Canada in 1974, he was employed as underground mine geologist at the Copper Rand Division, Chibougamau, Quebec, of Patino N. V., prior to joining Quebec Sturgeon River Mines Limited in late 1974 to become the underground geologist at the Bachelor Lake Gold Mine.





QUEBEC STURGEON RIVER MINES LIMITED

REPORT OF THE DIRECTORS

We are pleased to present the 46th Annual Report of the Corporation which includes the audited consolidated financial statements for the year ended 31st December, 1979 together with a review of the Corporation's gold property interests and related developments during the year and in the subsequent period to date.

A SUMMARY OF SIGNIFICANT HIGHLIGHTS

It is with particular satisfaction that Management can now announce the successful conclusion of financing arrangements enabling your Corporation to immediately proceed with two separate projects, thereby fulfilling the major objectives of the past several years in the planning of production preparations and actual start-up of mining operations.

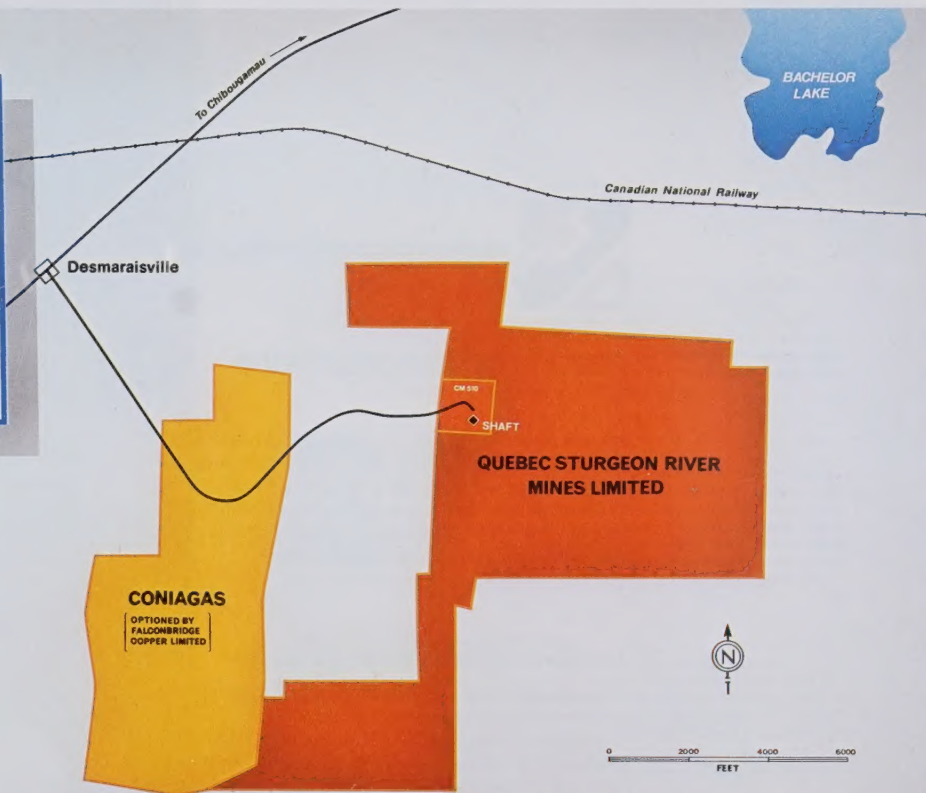
To reiterate Management's frequently stated policy, your Corporation has consistently adhered to the concept of senior financing arrangements that would minimize the burden of funded debt and maximize the equity interest of the shareholders.

It was also the understandable objective of Management that the implementation of these development and production programs would be co-ordinated with a buoyant and stabilized level of gold prices which would indicate an appropriate financial return to the Corporation and its shareholders.

Two almost concurrent major financing transactions, the sale by private placement of a block of treasury shares to provide for the ongoing exploration and development of the gold deposit in Stock Township, Timmins area, Ontario, and the \$10.5 million underwritten public offering of shares of our newly incorporated subsidiary, **Bachelor Lake Gold Mines Inc.**, to fund the final development to production of the well defined gold deposit in Lesueur Township, Bachelor Lake area, Quebec, have now been satisfactorily concluded.

The lead time to the actual commencement of mining operations at the latter gold deposit is approximately 15 months or during the final quarter of 1981, attaining capacity levels in early 1982.

This should coincide with a most favourable cycle for gold demand and prices.



This map was produced from information supplied, and believed correct,
JAMES H. PRIEST - DRAFTING SERVICES



**QUEBEC STURGEON RIVER
MINES LIMITED**

**Location map of main
property, Bachelor Lake
Lesueur Township, Quebec**

Financing

In March, 1980, financing for the resumption of underground exploration and development of the Stock Township gold deposit was obtained through the sale under private placement of 290,000 previously unissued treasury shares of the Corporation at a price of \$4.12 per share for the aggregate sum of \$1,194,800. A member firm of The Toronto Stock Exchange acted as fiscal agent for the Corporation in this transaction.

In May, 1980, financing for the completion of preproduction underground mine development, installation of mill and surface ancillary facilities, etc., at the Bachelor Lake gold deposit in Lesueur Township, was obtained through an underwritten public offering of 3,000,000 previously unissued treasury shares of Bachelor Lake Gold Mines, Inc. at a price of \$3.50 per share for the aggregate sum of \$10.5 million. A member firm of The Toronto Stock Exchange was the underwriter in this transaction.

Bachelor Lake Gold Mines Inc., is a recently incorporated subsidiary of Quebec Sturgeon River Mines Limited to which your Corporation transferred the mining concession and 18 development licences including the Bachelor Lake gold mine and certain related assets, in consideration of the issue to QSR of 3,666,666 shares representing 55% of the now issued and outstanding shares of Bachelor Lake Gold Mines Inc.

Capital costs — Bachelor Lake Mine

The estimated capital cost of bringing the Bachelor Lake gold mine into production, including the milling plant with a design capacity of 500 tons per day, is \$9,237,000 including a 10% contingency factor.

In order to provide for any additional contingencies which might arise because of cost escalations, Bachelor

Lake Gold Mines Inc. has arranged for the borrowing of up to \$500,000 from The Coniagas Mines, Limited, a substantial shareholder of Quebec Sturgeon River Mines Limited.

Bachelor Lake Gold Mines Inc. has also arranged an overrun facility to borrow a further sum of up to \$1 million from a Canadian chartered bank if required. In addition, the same bank has agreed to lend Bachelor Lake Gold Mines Inc. up to \$800,000 as an operating loan.

Cash Generation — Bachelor Lake Mine

Projections of cash generation prior to deductions for corporate income taxes, mining taxes and head office administrative expenses (and not including non-cash write offs for depreciation and amortization) at bullion prices varying from US\$400 to US\$800 per ounce, range from \$8 million to \$22.3 million per year at the design capacity of 500 tons per day.

The parameters used in the foregoing projections of cash flow generation are: millfeed grade 0.18 oz/ton gold (consultant's estimate); mill recovery rate 95%; operating costs per ton milled \$35.13 or \$205.44 per ounce recovered; and exchange rate U.S. to Canadian funds at 1.163.

The same parameters, with the exception of the millfeed grade 0.195 oz/ton gold (Corporate geological staff estimate) and operating costs per ton milled \$35.13 or \$189.62 per ounce recovered, shows cash generation at bullion prices varying from US\$400 to US\$800 per ounce, ranging from \$9.2 million to \$24.7 million per year at the design capacity of 500 tons per day.

The cash generation to equity (prior to taxes, administrative expenses and non-cash write offs) based on the 6,666,666 shares outstanding of Bachelor Lake Gold Mines Inc. at bullion prices varying from US\$400 to



Alongside: Early 1974-75 construction phase at Stock Twp. Property, showing transformers of 2,500 KVA substation.

Above: The top picture shows the one mile long all-weather access road to mine site in Stock Twp. from Highway 101, below is a scene during construction of 90 ft. shaft headframe and related mine building.

US\$800, range from \$1.19 to \$3.35 per share annually and a millfeed grade of 0.18 oz/ton, and from \$1.38 to \$3.71 annually at a millfeed grade of 0.195 oz/ton.

The important features of the equity method of financing for the production development of the Bachelor Lake gold deposit through the recently incorporated 55%-owned subsidiary, Bachelor Lake Gold Mines Inc., are:

- (1) Elimination of costly interest charges for funded debt, thereby enabling a flow-through of operating income by way of dividends to shareholders, probably within the initial year of production;
- (2) Taxation write offs which will be available to Bachelor Lake Gold Mines Inc. with respect to the capital costs of the facilities to be constructed and development work to be done; and
- (3) The flexibility in the negotiation of the additional financing required for the Stock Township gold deposit by Quebec Sturgeon River Mines Limited.

Moreover, under existing Canadian tax legislation, dividends from one Canadian corporation to another are not subject to tax in the hands of the receiving corporation.

STOCK TOWNSHIP GOLD DEPOSIT

Your Corporation has been active in Stock and Taylor Townships, Porcupine and Larder Lake Mining Divisions, Timmins area, Ontario, since 1972. Initially, this involved the assembly of mining rights, mainly by the purchase, option or leasing of patented properties.

Total holdings in Stock and Taylor now consist of 2,560 acres (the equivalent of 64 mining claims) located along an approximate 3.5 mile length of the Porcupine-Destor Fault, an important geological structure that is

associated with gold deposits throughout a distance of some 80 miles, extending from west of Timmins, Ontario, to Destor, Quebec. These properties represent a total acquisition cost to date of \$266,102.

Surface diamond drilling commenced early in 1973. Following the drilling of a number of widely spaced holes essentially put down on certain of these properties for structural information, encouraging indications were encountered in Stock Township, Lot 7, Concession 1, and led to a detailed drilling program in that location.

Drilling totalling 25,000 feet in 49 holes indicated gold-bearing mineralization along an east-west trending strike length of 2,200 feet. The concentration of closely-spaced holes was in the central 700-foot long section of strike length (with the least overburden) where a relatively flat-lying deposit containing an estimated 700,000 tons with an average grade of 0.14 oz. of gold per ton to a depth of 350 feet below surface was indicated.

Overburden in the area varies from 45 to 180 feet and its existence results in high drilling costs. For this reason the drilling was concentrated in the favourable area with the least overburden. It is of interest to note that no outcrops are known within five miles of this discovery.

Owing to the thickness of overburden, it was considered that this deposit could be explored more efficiently and economically from underground, which would have the dual objective of confirming the tonnage and grade indicated from surface drilling as well as providing an access for underground exploratory drilling and development, both laterally and to depth.

Results of the surface diamond drilling established several facts:

- (a) the strike and dip of the Porcupine-Destor Fault, the main geological control of the structure;



(b) south of this fault lies a series of mafic volcanics which have been intruded by quartz feldspar and feldspar porphyry dykes;

(c) numerous intersections of well altered, bleached, sericitised, pyritised andesite have been made, and many sections within these intersections have returned good grade gold assays; and

(d) at 200 feet below surface, from the diamond drilling done, a good interpretation of the geological structure can be made, and this level has been chosen as the location for an exploratory drive to be followed by underground diamond drilling.

In calculating the average grade for the 700,000 tons referred to in the foregoing, all assays over one ounce of gold were 'cut' to one ounce. The true thickness of this indicated zone will average in excess of 40 feet and will be amenable to low cost modern mechanized mining methods employing LHD equipment.

The 1974-1975 Phase of the Underground Program

A mine access road, one mile in length, was completed from the main Highway 101 to the shaft site in July, 1974. A 2,500 KVA substation was installed at the mine site to receive power and serve the mine facilities. A 27.5 KV primary power line was installed by Ontario Hydro.

Steel piling was driven through 48 feet of overburden to bedrock in the form of a 28 ft. by 12 ft. rectangle and a 90-foot headframe for a three-compartment shaft was erected and all foundations for surface ore bins and waste bins poured. The shaft, measuring 23 ft. by 10 ft., was sunk within the steel rectangle and the first 12 feet of sinking was completed with a concrete ring poured to secure the bottom of the piling and to seal the walls of the shaft.

Construction of mine buildings commenced concurrent with the driving of the steel piling for the shaft and was completed early in 1975. The mining plant consists of a 40 ft. by 123 ft. steel Armco service building housing the hoist-compressor-heating plant and mine dry facilities. A second 40 ft. by 102 ft. steel Armco building housing the main offices, warehouse and machine shop, was also installed. In addition, an 80-foot water tank was erected and a deep well completed to service the mine and plant with water.

The 1974-1975 phase of the program was completed at a cost of \$1,630,000 which undoubtedly is well below current costs. Between 1975 and well into 1979, the low and frequently unstable pattern of gold prices inhibited financing for further work and the property has been on a care and maintenance basis.

The 1980 Program for the Stock Twp. Project

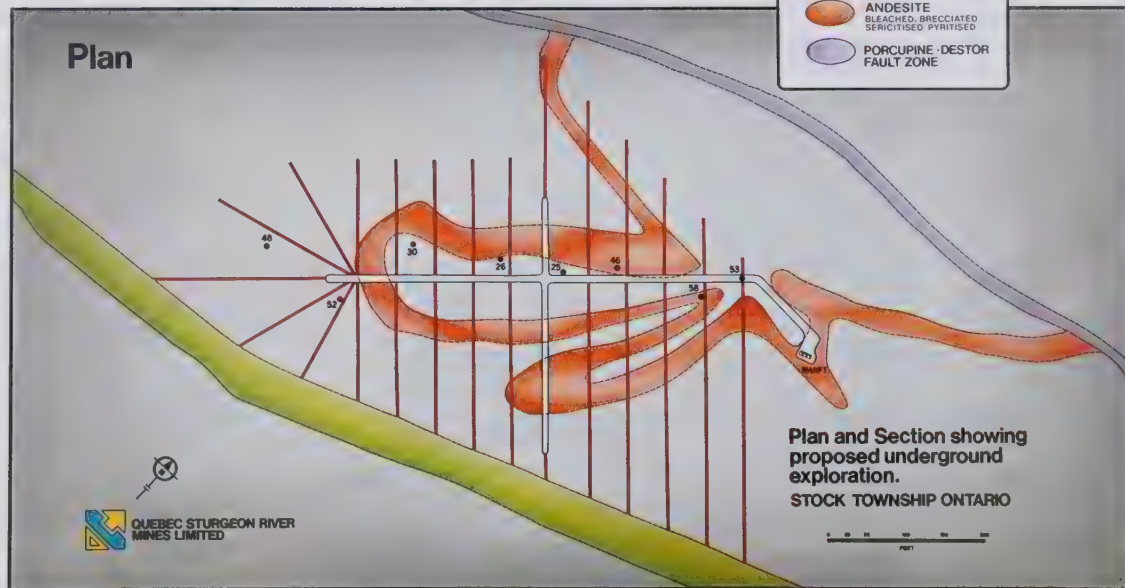
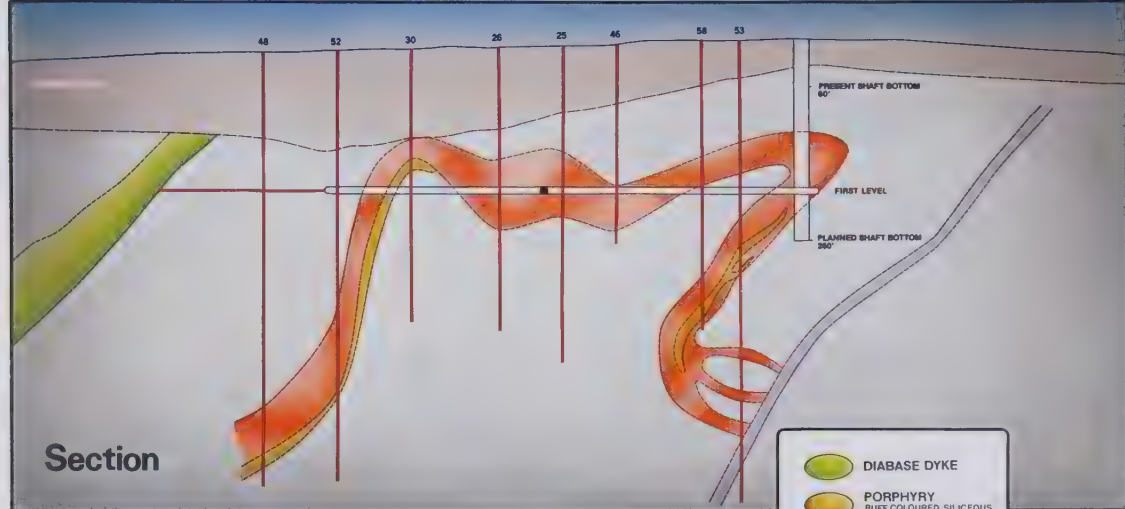
As a result of the previously mentioned separate funding for the Stock Township gold deposit, the recommended underground program of exploration and development has now been resumed. The current program, will include the deepening of the shaft 170 feet below the existing shaft bottom to a depth of 230 feet from surface, cutting of a shaft station at 200 feet and driving a drift on this first level for a length of 1,000 feet. In addition, some 7,000 feet of diamond drilling will be carried out from the drifts.

A plan and section of the proposed underground program is appended. Work preliminary to the commencement of shaft deepening is already in progress on the Stock Township property and formal contract for the sinking is expected to be signed momentarily. The estimated cost of this phase of the underground program is \$832,667 including a 10% contingency and will require some eight months to complete.

Pictures alongside of the Stock Twp. mine site were taken during April, 1975. Upper view looking northeast of mine buildings, power substation and water tank. Lower left is a view looking almost due south with access road to highway in background. Lower right is view to north of headframe and mine buildings

This drawing shows detail of underground work to be carried out on the central 700 ft portion of the 2,200 foot long strike length of the east-west trending gold mineralized zone intersected by surface drilling

The central 700 ft. section contains an estimated 700,000 tons grading 0.14 oz. gold per ton to a tested depth of 350 feet from surface. The shaft will be deepened to an initial depth of 230 feet with a drift to be extended 1,000 feet from the 200 ft. elevation of first level.



The emerging trend of sharply climbing gold prices during 1979 and particularly in the latter months of that year, against a background of economic uncertainty and political tensions, brought renewed emphasis on the value of this metal in contrast to the rapidly deteriorating worth of many formerly sound fiat currencies.

The resulting strong demand for gold, principally featuring European banks and financial institutions, many reputedly accumulating for Middle East oil countries with a surfeit of U.S. dollars and other similarly super-inflated currencies, propelled gold prices strongly upward to levels where even the most conservative of major gold producing corporations were aggressively planning substantial programs of expansion and new production.

These circumstances clearly improved conditions for financing of gold projects on acceptable terms, enabling your Corporation to confidently embark on the financing arrangements for the Stock Township and Bachelor Lake projects.

BACHELOR LAKE GOLD DEPOSIT

As previously stated, your Corporation recently incorporated a Quebec-based subsidiary, Bachelor Lake Gold Mines Inc., to which it transferred title to the mining concession and 18 development licences in Lesueur Township, Quebec, which include the Bachelor Lake gold deposit and certain related assets, in consideration of the issue to Quebec Sturgeon River Mines Limited of 3,666,666 shares of Bachelor Lake Gold Mines Inc.

The express purpose of this transaction was to facilitate and expedite the final negotiation of the required senior

financing to bring the Bachelor Lake gold mine into production on terms and conditions conforming with the interests and objectives of the shareholders.

Following the intensive program of exploration and underground development during 1972 to 1975 at a cumulative expenditure of some \$4.2 million which successfully defined ore tonnages and grade essential to definitive production deliberations, the decision was taken to seek the necessary financing to implement final preproduction development and the construction of the mining, ore treatment and bullion refining facilities.

The subsequent abrupt and sharp decline in gold prices during the second half of 1975 — a trend which accelerated even further in 1976 when gold plunged to a low of nearly \$100 per ounce before the major rebound in 1977 and 1978 — clearly inhibited the raising of the then estimated \$6.5 million for the capital cost to complete the underground work including stope preparation and the construction of the mill and related ancillary facilities.

Financing Considerations

During the past two years in particular, Management thoroughly investigated and carefully considered, a variety of financing proposals and other submissions. These covered a wide range from the customary debt financing with its obligatory prime-plus interest charges with profit distribution subordinated to the full repayment of principal monies, to joint venture arrangements usually predicated upon the recapture of capital costs prior to the sharing of income, together with the imbalance of participating interest in favour of the financing partner.

For obvious and practical reasons, Management was reluctant in the acceptance of these proposals, having regard to the burden of inordinate debt servicing costs,



ALONGSIDE UPPER LEFT is a view of the 6th level east at the Bachelor Lake Gold Mine showing the ore zone in mixed granite and greenstone with the typical red colouration
BELOW is a scene at the 4th level showing definition diamond drilling Both pictures taken during February, 1975



The picture alongside at the lower left again shows the typical rock structure underground at the Bachelor Lake Gold Mine. This picture was taken during 1974 when the major underground development program was well advanced on four levels, the 1st, 2nd, 3rd and 6th

bonus requirements and the always accompanying risks in the hypothecation of principal corporate assets.

A further and compelling consideration inherent in most of these financing submissions was the frequent imposition of restrictive terms which would seriously hamper your Corporation's ability to actively pursue other major development objectives, particularly with respect to the funding of the underground exploration and development of the Stock Township project with its indicated major tonnage potential and near-term prospects for successful exploitation.

It is abundantly evident to shareholders and Management alike, that the terms reached through the \$10.5 million equity funding of our subsidiary, Bachelor Lake Gold Mines Inc., provided a most attractive arrangement. The impact of inflationary pressures which escalated capital cost requirements to \$9.3 million from \$6.5 million envisaged three years ago, the contrary position of earning rather than paying interest on financing proceeds, together with the prospect of obtaining appreciable operating income virtually concurrent with the start-up of operations late in 1981, is a sound economic combination.

Moreover, the facility of standby borrowing powers if additional funds are required, through associated The Coniagas Mines, Limited and a Canadian chartered bank, eliminates any dilution of your Corporation's 55% equity interest in subsidiary Bachelor Lake Gold Mines Inc.

Importantly, with this major funding in place, your Management was also able to secure equity financing under private placement investment arrangement for the important Stock Township project. The latter should be sufficiently advanced in its underground development at the time of commencement of operations at Bachelor Lake and the attendant flow-through of income to the Corporation, to facilitate financing for this undertaking.

Mining Operations

From the previous surface and underground exploration work carried out during 1972-1975, sufficient ore reserves have been delineated to commence production at an initial milling rate of 500 tons per day. The ore is free milling and tests conducted by metallurgical consultants on representative samples from the underground workings show expected recoveries of 95% or better.

Essentially all underground development to stope preparation was completed when the project was placed on a care and maintenance basis in September 1975 because of the decline in world gold prices and the resultant effect on financing conditions and projected diminishing profit margins at the then prevailing bullion price levels.

During this three-year period, the following work was carried out:

- * Surface diamond drilling totalling 5,924 feet in 19 vertical holes.
- * A total of 8,046 feet of drifting and crosscutting, and 2,451 feet of raising.
- * Underground definition core drilling amounting to 25,573 feet in 343 holes.
- * Excavation for an ore pass system totalling 865 feet driven between the 2nd and 6th levels, plus 14 raises extending from surface to the 7th or present bottom level.

The 500 t.p.d. mill will be operated on a seven day week basis for a throughput of 3,500 tons of ore per week. All mining is to be performed by a well known experienced contracting firm operating on a five day week, two shifts per day basis.

The ore will be mined using conventional underground methods. Sublevel blasthole stoping with trackless equipment will be used in the upper, wider ore sections

TOTAL ORE RESERVES
(After 10% Dilution at 0.020 Oz. Au / ton)



GRANITE

of the mine. In the lower sections, shrinkage mining with track equipment will be employed.

Direct operating costs, which are based on labour, materials and supplies in January 1981 dollars, are estimated at \$35.13 per ton after allowing for a 10% contingency. These costs are applicable to regular capacity operations at 500 tons daily. Included in the mining costs is an exploration and development charge.

The consultants breakdown of estimated operating costs based on contract mining at 500 tons per calendar day is as follows:

	Per Ton Milled
Mining	\$16.20
Milling	6.73
General Expense	3.92
Mine Service Costs	1.66
Mine Administration	2.43
Head Office Administration	7.00
	\$31.94
10% Contingency	3.19
	\$35.13

Ore Reserves

Mineable ore reserves as estimated by your Corporation's geological staff is as follows:

Classification	Tons	Percentage of Total	Grade Oz/Ton
Proven	780,834	80.74	0.194
Probable	97,052	10.04	0.188
Drill-Indicated	89,160	9.22	0.201
Totals	967,046	100.00	Avg 0.195

As a basis for calculating ore reserves, all high grade assays were cut to 1.00 ounce per ton, a minimum width of 5.0 feet applied and dilution allowance of 10% or 0.02 ounce per ton. The mineable widths vary from approximately 7.3 feet over a strike length of 385 feet on a portion of the 6th level to a width of 40 feet over a strike length of 200 feet on the 2nd level.

From the standpoint of the quality of the ore reserve as presently defined, the percentage of proven tonnage of the total reserve is considered quite unique and significant for any mine embarking upon initial operation.

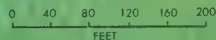
Derry, Michener & Booth, Geological Consultants, Toronto, Canada, were requested by your Corporation to make an estimate of the gold-bearing reserves as outlined by surface and underground exploration on the Bachelor Lake property. Their report made in June 1975 after the near completion of the underground development program estimated geological reserves from surface to a vertical depth of 1,150 feet at 850,000 tons grading 0.18 oz. per ton of gold after allowing for a tonnage dilution at 15% at a calculated grade of 0.013 oz. per ton.

Another report, commissioned by your Corporation (and similarly for financing purposes) and prepared by J. Burns Anderson, P.Eng., Consultant Mining Engineer, used the Derry, Michener & Booth estimates, but differed in that he only used the "proven" and "probable" tonnages, the two categories accepted by the various regulatory authorities. The consultant also used a 95% extraction rate in calculating mineable ore reserves totalling 702,500 tons grading 0.18 oz. of gold per ton, adding: "it is reasonable to assume, however, that with additional underground development, tonnage in the 'possible' categories will be reclassified as 'proven'."

Development work remains to be done west of the shaft crosscut in the 1st, 2nd, 3rd and 5th levels and also east



COMPOSITE LEVEL PLAN
BACHELOR LAKE GOLD MINE



QUEBEC
STURGEON RIVER
MINES LIMITED

of the shaft crosscut in the 5th and 7th levels. Three separate blocks above the 7th level (W-7-H, W-7-D, and W-7-G shown in the appended longitudinal section) within the ore zone for which no tonnage and grade attribution was made by the Corporation's geological staff, but where drill holes have indicated the continuity of ore. Each of these blocks are contiguous to the blocks classified as proven ore.

In summary, the underground work was done almost exclusively to prove up the ore reserves of the deposit above the 7th level. Two holes drilled in 1975 below the 7th level gave ore values at the 1,215 foot elevation, 140 feet below the 7th or bottom level. In fact, only 1,000 feet of the promising 3,300 feet of strike length has been partially explored on the property.

The difference between the average grade as calculated by the Corporation's geological staff and those calculated by the consultants, is a factor of 0.015 oz. per ton. If the latter figure is attained in actual production, the annual gold recovery would be approximately 2,520 ounces higher.

Bullion Marketing

It is contemplated that marketing of gold will be through the facilities and on the advice of SBC Financial Limited, a subsidiary of Swiss Bank Corporation.

OTHER GOLD INTERESTS OF THE CORPORATION

Pursuant to an agreement effective from January 1, 1979, your Corporation and its presently wholly-owned subsidiary, Anglo Canadian Exploration (ACE) Limited entered into an exploration agreement with **Anglo Dominion Gold Exploration Limited** with respect to the Prospecting Licence for gold and silver covering a 14-square mile area (8,962 acres) in the vicinity of the

Ogofau Gold Mines, Central Wales, U.K. The Prospecting Licence was granted to Anglo Canadian Exploration (ACE) Limited by the Crown Estate Commissioners and the current term extends to May, 1983. While the licence is in force, application can be made for a 21-year exploitation lease which is subject to a royalty of 4% of the values of bullion produced.

Under the agreement with Anglo Dominion Gold Exploration (Anglo Dominion), the latter undertook to advance, as ACE requires funds, in the aggregate the sum of \$100,000 within two years of the date of the agreement, which will be expended by ACE in carrying out exploration on the Prospecting Licence area. In consideration of such advances, Anglo Dominion will be entitled to subscribe for shares of ACE to the extent of one-third of the then issued shares of ACE.

Anglo Dominion has the contingent right to make additional advances to ACE in two stages of \$150,000 and \$250,000, respectively, each within periods of two years. In each case, after such advances, Anglo Dominion will be entitled to subscribe for additional shares of ACE and will, if it exercises both options, be the owner of 50% of the then issued shares of ACE.

Thereafter, the agreement provides that your Corporation and/or Anglo Dominion may elect to make advances with their respective entitlements to subscribe for shares on the basis of one share of ACE for each \$10,000 advanced.

To the end of 1979, Anglo Dominion had advanced ACE a total of \$76,914. Further advances are now contemplated under this agreement to fund ACE to carry out the following exploration work:

- (a) Approximately 3,500 feet of diamond drilling at an estimated cost of \$215,000; and
- (b) Geological supervision, analytical costs and research, the estimated cost of which is \$100,000.

Gold prices charted from
weekly average on London
Gold Market in U.S. dollars

Yearly average prices

1975 — \$155 per oz

1976 — \$125 per oz

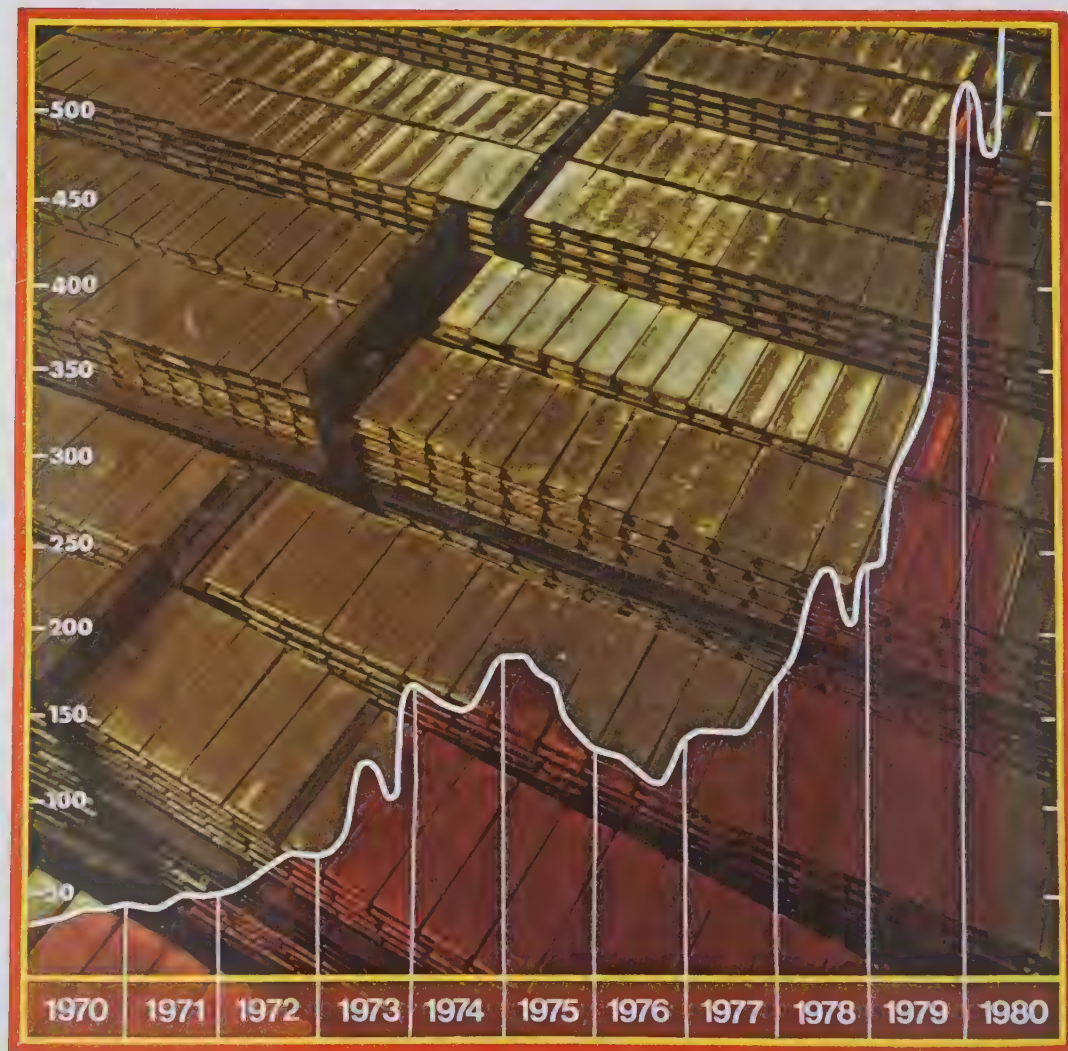
1977 — \$148 per oz

1978 — \$193 per oz

1979 — \$307 per oz

1980 — \$635 per oz

(1st Quarter)



The program of recommended diamond drilling is scheduled to commence on or about the end of June, 1980 and will consist of a total of at least 3,500 feet in seven holes, five of which are assigned to the test of the "Allt Brunant" anomaly and two to the "Allt Ynysau" anomaly. The two anomalies were selected for test on the basis of geological mapping, geochemical and biogeochemical surveying which was carried out by staff members of the Department of Mineral Exploitation, University College, Cardiff.

Former Gold Producer, Beardmore

Your Corporation owns 95% of the issued capital of **Phoenix Gold Mines Limited** which holds title to the Sturgeon River Gold Mine in the Beardmore area, District of Thunder Bay, Ontario. The property is developed by a shaft sunk to 2,108 feet with 13 levels at 125 ft. intervals. Production started in April, 1936 with a 40 ton mill, increased to 70-80 ton capacity in the following year and over the period of operation to October, 1942 produced about 78,000 ounces of gold from 145,132 tons of ore treated. The average recovered grade was about 0.50 oz. per ton gold.

The stated reasons for the closure of the mine was a lack of labour. All mining plant and buildings were removed and the underground workings allowed to flood. At the time of closure, the estimated reserves were stated at 102,285 tons averaging 0.324 oz. per ton over an average width of 2.6 feet.

The property is large, consisting of 35 patented claims situated in Pipher, Elmhurst, Irwin and Walters Twps., Ontario.

The mine itself has exploration potential beyond that of the stated reserves. Among other targets tentatively

selected for further exploration is the NE-SW striking copper-nickel-gold vein known as the Ogaura somewhat removed from the minesite.

GENERAL

The confidence of the Management of your Corporation in the fundamental strength of world gold prices, and faith in its continuing uptrend cannot be more explicitly expressed than by the decision and opportunity to now proceed with two separate gold projects, the \$10.5 million production undertaking at Bachelor Lake and the equally promising exploration and development program at the Stock Township gold property.

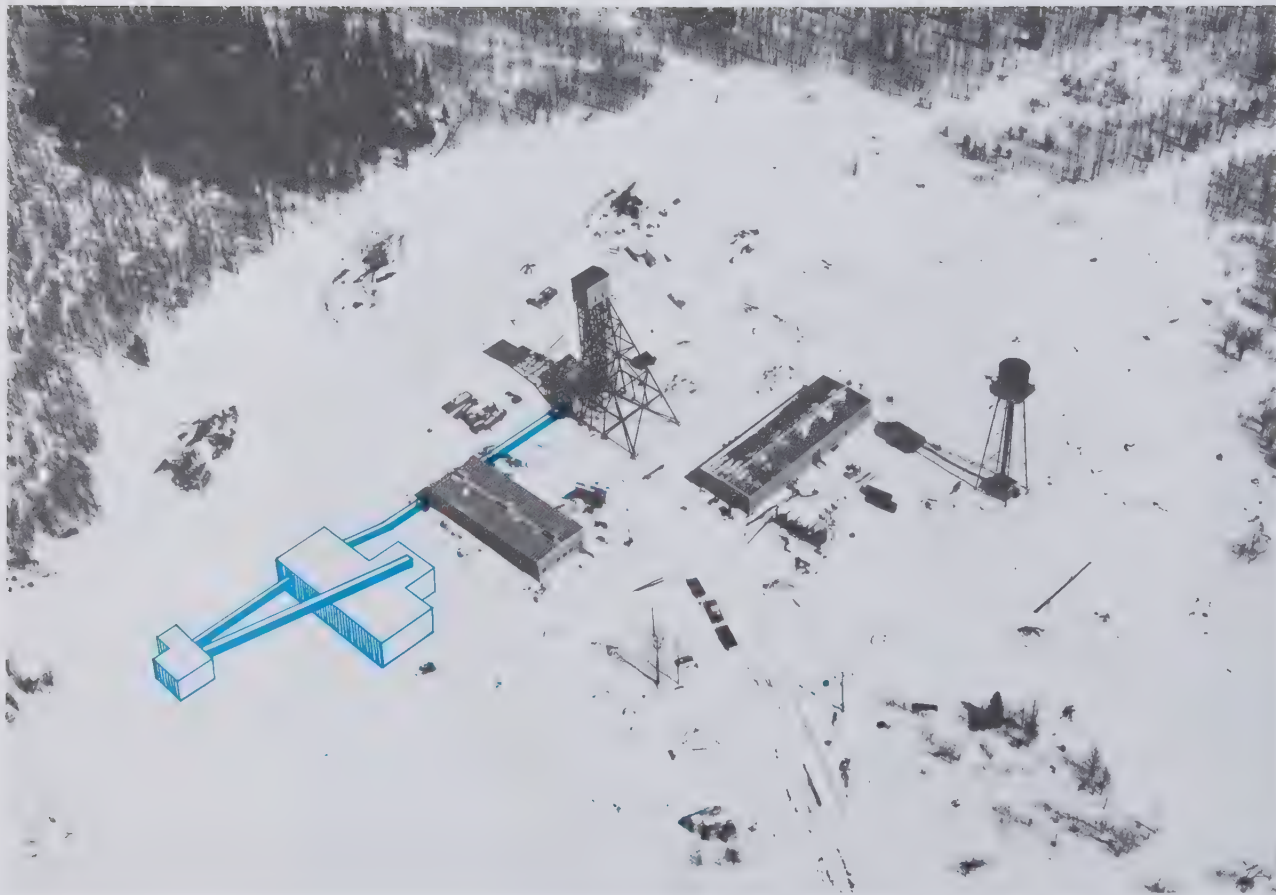
Shareholders will be kept informed on a regular basis on the progress at these two projects.

The Board of Directors most gratefully acknowledge the contribution of all employees during the past year and similarly express appreciation for the skills and efforts of the consultants and others whose contributions in finalizing the production arrangements will be measured in terms of achievement.

On behalf of the Board of Directors,

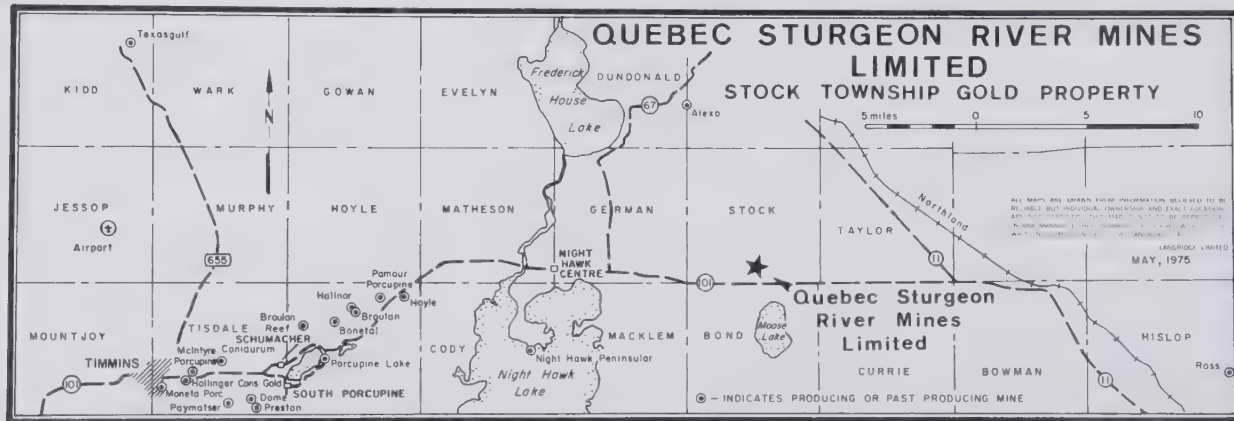
"Harold P. Coplan"
President and Chief Executive Officer

9th June, 1980

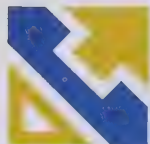


Among the many production alternatives available following the underground development at the Stock Twp. gold mine and the proving of reserves adequate for viable operation, are the initial use of nearby custom milling facilities, a crushing-flotation plant to produce gold concentrate at the site (with final recovery at Bachelor Lake) such as depicted in the overlay drawing above, or a complete mill, the latter two representing a cost of \$2.5 million and \$4.5 million, respectively.

The map below of the Timmins area of Ontario encompasses one of Canada's greatest gold producing areas — the Porcupine Camp — which was initially discovered in 1909 with the finding of the present Dome Mine in Tisdale Township, followed in fairly quick succession by other major discoveries including the Hollinger, McIntyre (Schumacher) and some years later during the 1930's when the price of gold was increased to \$35 per ounce, such mines as the Pamour, Hallnor, Aunor and many others came into production. Cumulative production from the veteran Porcupine mines, many of which are still operating, now exceeds \$1.5 billion — a major portion of this value representing gold recovered at prices varying from \$20.67 to \$35.00 per ounce



The discovery in 1973 of the gold deposit in Stock Township (shown in the map above) by Quebec Sturgeon River Mines Limited came as a result of geological interpretation and persistent drilling through the heavy overburden in the area which varies up to 180 feet in places. The Stock Township discovery is the only brand new gold deposit found in the Timmins area since the major boom in the 1930's. The Company controls 2,560 acres along a 3.5 mile length of the Porcupine-Destor Fault in Stock and Taylor Townships, all of which is in close proximity to holdings of Hollinger Mines Limited which have been retained by that company for at least the past 12 years.



QUEBEC STURGEON RIVER MINES LIMITED

(Incorporated under the Laws of Ontario)

Consolidated Balance Sheet

DECEMBER 31, 1979

ASSETS	1979	1978
CURRENT ASSETS		
Cash	\$ 64,440	\$ 84,241
Accounts receivable	15,659	3,375
Inventory of surplus equipment, at cost	68,000	68,000
Prepaid expense and deposits	7,294	7,031
	<u>155,393</u>	<u>162,647</u>
INVESTMENT IN OTHER MINING COMPANIES (note 2)	5	5
MINING PROPERTIES (note 3)	451,201	451,201
FIXED ASSETS (note 4)	1,060,522	1,050,616
DEFERRED EXPENDITURE		
Exploration	5,232,148	5,050,828
Hydro deposit	65,128	65,128
Discount on convertible debentures	241,492	241,492
	<u>5,538,768</u>	<u>5,357,448</u>
	<u>\$7,205,889</u>	<u>\$7,021,917</u>

LIABILITIES	1979	1978
CURRENT LIABILITIES		
Accounts payable	\$ 72,342	\$ 62,757
Loan from an associated company, secured (note 3)	35,000	40,000
	107,342	102,757
EXPLORATION ADVANCES (note 3)	76,194	
CONVERTIBLE DEBENTURES (note 5)	1,610,000	1,610,000
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 6)		
Authorized — 8,000,000 shares without par value		
Issued — 5,916,275 shares (1978 — 5,816,275)	6,314,598	6,178,598
CONTRIBUTED SURPLUS	1,037,818	1,037,818
	7,352,416	7,216,416
DEFICIT	1,940,063	1,907,256
	5,412,353	4,309,160
Approved by the Board:		
HAROLD P. COPLAN, Director		
O. A. SEEGER, Director		
	\$7,205,889	\$7,021,907

AUDITORS' REPORT

To the Shareholders,
Quebec Sturgeon River Mines
Limited.

We have examined the consolidated balance sheet of Quebec Sturgeon River Mines Limited as at December 31, 1979 and the consolidated statements of deficit, deferred exploration expenditure and the changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who examined the financial statements of the subsidiary.

In our opinion, these consolidated financial statements present fairly the financial position of the Company at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Jarrett, Goad & Elliott
Chartered Accountants

Toronto, Ontario,
March 20, 1980.



QUEBEC STURGEON RIVER MINES LIMITED

Consolidated Statement of Deficit

FOR THE YEAR ENDED
DECEMBER 31, 1979

	1979	1978
BALANCE, BEGINNING OF YEAR	\$1,907,256	\$1,877,620
Administration expense	32,807	29,636
BALANCE, END OF YEAR	<u>\$1,940,063</u>	<u>\$1,907,256</u>

Consolidated Statement of Deferred Exploration Expenditure

FOR THE YEAR ENDED
DECEMBER 31, 1979

	1979	1978
Bachelor Lake Project (including maintenance expenditure)	\$ 85,760	\$ 68,952
Townships of Taylor and Stock (including maintenance expenditure)	41,072	31,765
United Kingdom Project	54,488	2,486
Total expenditure	<u>181,320</u>	<u>103,203</u>
Balance, beginning of year	<u>5,050,828</u>	<u>4,947,625</u>
	<u>\$5,232,148</u>	<u>\$5,050,828</u>



Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED
DECEMBER 31, 1979

	1979	1978
SOURCE OF WORKING CAPITAL		
Issue of 100,000 shares (1978 — 45,000 shares)	\$ 136,000	\$ 41,400
Proceeds of sale of equipment		20,800
Refund of hydro deposit		14,872
Exploration Advance-Anglo Dominion Gold		
Exploration Limited, Welsh Project	76,194	
	<u>212,194</u>	<u>77,072</u>
APPLICATION OF WORKING CAPITAL		
Exploration expenditure	181,320	103,203
Item not requiring an outlay of working capital		
Loss on sale of equipment		15,345
	<u>181,320</u>	<u>87,858</u>
Administration expense	32,807	29,636
Increase in costs of mining properties		5,000
Purchase of fixed assets	9,906	
	<u>224,033</u>	<u>122,494</u>
DECREASE IN WORKING CAPITAL	11,839	45,422
WORKING CAPITAL, BEGINNING OF YEAR	59,890	105,312
WORKING CAPITAL, END OF YEAR	<u>\$ 48,051</u>	<u>\$ 59,890</u>
COMPONENTS OF WORKING CAPITAL		
Current assets	\$ 155,393	\$ 162,647
Current liabilities	107,342	102,757
	<u>\$ 48,051</u>	<u>\$ 59,890</u>



Notes to Consolidated Financial Statements

December 31, 1979

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of Anglo-Canadian Exploration (ACE) Limited, a wholly-owned subsidiary, incorporated on April 2, 1973 under the laws of the United Kingdom. The accounts of the Subsidiary have been converted to Canadian dollars at approximate exchange rates at December 31, 1979 for current assets and liabilities and at historical rates for other assets.

(b) Mining properties and deferred exploration

The Company records its mining properties at cost and defers the cost of exploration expenditure and carries them as assets until such time as they are written off against production from the property to which they apply or until all claims within the area are sold or otherwise disposed of.

(c) Fixed assets

Fixed assets are carried at cost. No depreciation is provided on fixed assets until such time as the mining properties are brought into production.

(d) Discount on debentures

The Company will amortize the discount on the debentures over their term simultaneously with the accrual for interest (note 5).

2. INVESTMENT IN OTHER MINING COMPANIES

Shares

760,000	shares, Phoenix Gold Mines Limited	51
2	shares, Coniagas Research Inc.	1
294,938	shares, Beauce Placer Mining Company Ltd.	1
375,000	shares, Millstream Mines Limited	1
Notes receivable		
\$175,000	5% unsecured, deferred, subordinated notes of Beauce Placer Mining Company Limited	1
		<u>\$5</u>

3. MINING PROPERTIES

1	mining concession (15.96 hectares) and 18 development licences (701.86 hectares) in the Bachelor Lake Area, Lesueur Township, District of Abitibi East, Quebec	\$185,099
2,560	acres acquired by purchase and lease in the District of Cochrane, Townships of Stock and Taylor, Porcupine and Larder Lake Mining Divisions, Ontario (4 of the lots covering 509 acres secure the loan from an associated company)	\$266,102
1	prospecting licence covering 8,962 acres in the Ogofau Area, Central Wales, United Kingdom	<u>\$451,201</u>

Pursuant to an agreement effective as of January 1, 1979, the Company and its wholly-owned subsidiary, Anglo Canadian Exploration (ACE) Limited entered into an exploration agreement on the subsidiary's mining property with Anglo Dominion Gold Exploration Limited (formerly Nudulama Mines Limited).

The agreement provides that, inter alia, Anglo Dominion will advance funds to ACE to carry out an exploration programme. Upon advancing to ACE \$100,000, Anglo Dominion will be entitled to subscribe for at One Pound Sterling per share, 50 fully paid shares of ACE. The agreement makes further provision whereby Anglo Dominion may elect to make further advances of not less than \$150,000 within two years after the initial expenditure and a further \$250,000 within a further two year period thereafter. In each case after such expenditure, Anglo Dominion will be entitled to subscribe for a further 25 shares at One Pound Sterling per share and will, if it exercises both options, be the owner of 50% of the outstanding shares of ACE. Thereafter, the agreement provides, either the Company or Anglo Dominion may cause ACE to carry out further programmes and if the other party does not wish to participate the party advancing funds will be entitled to subscribe for and ACE shall issue at the price of One Pound Sterling per share one share for each \$10,000 advanced.

4. FIXED ASSETS

Equipment, structures and roads	<u>\$1,060,522</u>
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5. CONVERTIBLE DEBENTURES

Authorized

\$2,500,000 to be issued in series ranking pari passu as to security.

Issued

- \$1,500,000 10% subordinated convertible series A debentures, at a discount of \$224,992 to mature June 1, 1981. These debentures are convertible into common shares at any time at \$2 per share for a total of 750,000 common shares without par value. No interest shall accrue or become payable from June 1, 1978 until the earlier of the date of maturity or the commencement of commercial production. A bonus of 25 common shares per each \$1,000 principal amount of debentures shall be paid for each one-half year period, during which interest is not paid.
- \$110,000 10% subordinated convertible series B debentures at a discount of \$16,500 to mature November 1, 1981. These debentures are convertible into common shares at any time at \$2 per share for a total of 55,000 common shares without par value. No interest shall accrue or become payable from May 1, 1978 until the earlier of the date of maturity or the commencement of commercial production. A bonus of 25 common shares per each \$1,000 principal amount of debentures shall be paid for each one-half year period, during which interest is not paid.

In addition, both the series A and series B debentures will be entitled to a premium of a minimum of \$100 per \$5,000 of par value each year

based upon the operations of the preceding fiscal year. A bonus of 25 common shares per \$1,000 of principal amount shall be payable for each one year period commencing February 15, 1978 until the earliest of the date of a premium payment or the date of conversion or maturity of the debentures.

The series A and series B debentures provide for a specific mortgage and hypothecation of immovable property situate in Lesueur Township, Quebec and a floating charge on all other assets present and future except for the four lots referred to in note 3.

There is a provision for principal prepayments at a premium based on a reducing scale from 1% per annum to no premium subsequent to 1980, but the Company will covenant not to repay more than 25% of the principal within five years from the date of issue.

The holders of series A and B debentures have agreed to waive their rights to interest to June 1, 1978 and to May 1, 1978 respectively.

6. SHARE CAPITAL

- (a) During the year ended December 31, 1979 the Company issued 100,000 shares for \$136,000 cash.
- (b) Options are outstanding to employees of the Company of 55,000 shares at \$2.43 per share exercisable on or before September 10, 1980.

Subsequent to December 31, 1979 options on 18,500 of these shares were exercised for \$44,955 cash.

- (c) 860,000 unissued shares have been reserved for the options referred to in (b) above and for the convertible debentures referred to in note 5 and a further 365,000 unissued treasury shares have been reserved for the bonuses referred to in note 5.

7. VALUES

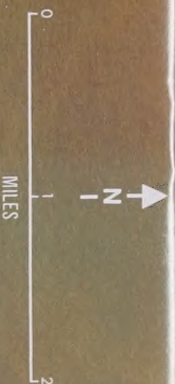
The costs of mining claims, fixed assets and deferred exploration expenditure do not necessarily reflect present or future values.

8. DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

The aggregate remuneration paid to directors and the five highest paid employees of the Company in 1979 was \$14,400 (1978 — \$20,700).

9. SUBSEQUENT EVENT

Subsequent to the year end, the Company issued 290,000 treasury shares under a private placement for \$1,194,800 cash.



The Gold and Silver prospecting licence area
(14 sq. mi. — 6,962 ac.) held by
ANGLO CANADIAN EXPLORATION (ACE) LIMITED
DOLAUCOTHI AREA
CARMARTHENSHIRE, WALES, U.K.
Subject of an exploration agreement with
ANGLO DOMINION GOLD EXPLORATION LTD.

Wales



